

NEWS

Red Roof Announces Franchise Plans, Competitors Say Going Will Be Tough

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Further bolstering Red Roof's efforts is a recently-secured \$150 million multi-bank credit facility, an expansion of a \$100 million facility underwritten by the same bank last November. Participating banks include Bank One, PNC Bank, Harris Trust and Savings Bank, NBD Bank, The Fifth Third Bank, Misco Leasing (USA), NorthWest Bank and Star Bank.

After filing its Unfinished Franchise Offering Circular (UFOC) with the Federal Government, the Red Roof plan will be officially announced in the next few months.

Currently, Red Roof Inns plans to franchise 25 properties in 1997 on top of the planned expansion of 15-20 company operated facilities. In 1998, they are scheduled to open between 15 and 20 company owned facilities. By 1998, Cash believes the number of franchised hotels could reach upwards of 25 franchised openings per year. They have no plans to expand out of the U.S.

However, Cash cautions that during the initial stages of franchising Red Roof Inns will only be working with a few select companies. "It is easier for us to deal with companies that we know and are familiar with, than a broad base of people," he said.

Competitive Reaction

Mike Leven, president/CEO, US Franchise Systems says it was only a matter of time before Red Roof moved into franchising. "[Red Roof Inn] is a very good brand and there is considerable demand. If they do it correctly I think it will be a real strong competitor in the economy market. My guess is they are going to do it carefully, slowly and be very selective. I do not think you will see a very aggressive franchise effort."

But not all executives believe franchising will come easy in the economy giant. "Red Roof is a good company and I think they will be good competition for all of us," said Robert Weller, president/COO, Super 8 Motels. "However, you can not build a franchise company overnight."

Weller asserted that Red Roof is primarily a regional chain that lacks critical mass. "More important, it is difficult to run a franchise division; you compete against yourself in some areas," he said.

Rod Sibley, vp/development,

Choice Hotels also supports this belief. "Once the acquisition of Red Roof Inns was completed, they launched down a path of corporate acquisitions to expand their overall distribution of product. However, they are a rather late entrant relative to their pricepoint and product segment."

"Given the overall economic and market conditions, this pricepoint segment from all of lodging products is the least exciting in overall opportunity," he said.

We have a lot of good contacts in the industry and will work with people we already know."

—Butch Cash,
Red Roof Inns

Cash acknowledged the chain's inexperience in franchising, but noted that many of the company's executives have the wherewithal to make this a successful venture. Cash said, "We have a lot of good contacts in the industry and will work with people we already know. We have a brand that is in great demand by customers."

In fact, Cash believes that without franchising, the company could only add 20-25 hotels per year for a market he says demands the addition of 100 hotels each year. To continue growing at that pace, they plan to expand into new geographic territories such as the Northwest. Cash adds there are many expansion opportunities in existing markets as well. "In California we own 6 properties, we should have 9 or 10. In Atlanta we could also add several more hotels."

Super 8's Weller, who previously headed Econo Lodge, stresses that competition has made franchising tougher. "Getting into the business is not like it was in the '70s when we had few competitors," he said. "It did not take as much to sell your product to a franchisee or a guest. Now there is five times the competition and it is a highly competitive market. Franchising is a rough and tumble game."

Red Roof has appointed Ruth Orndorf to the new position of svp/ franchise development. The switch to franchising should not make Red Roof Inns an acquisition target in the near future, said Sibley. "I think Choice historically has demonstrated its ability to buy franchising systems we left it in our overall product portfolio. If it fits in terms of brand and overall long term strategic plan and reinforces what we want to do, then we would look at it. Currently, Sleep Inn is our brand and it

is all new construction. It is growing nicely and if that continues to work, [Red Roof Inns] might not fit in our future plans," he said.

However, franchising is not the only way Red Roof plans to increase business. Currently the frequent-stay program is being revamped to add incentives for a loyal customer base.

Red Roof Inns was purchased by Morgan Stanley & Co. in 1993 with the expectation of taking the company public. "When the previous CEO retired, I came in with the mandate to grow the company," said Cash. "People know franchising and management contracts is a great way to grow a company."

An Excerpt —

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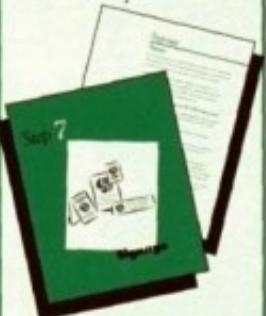


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